

LAFLEUR: Industry changes look good for markets

Wholesale markets grow, gas plants support renewables

The power industry might be going through some major changes, but that does not spell trouble for markets, FERC Commissioner Cheryl LaFleur said Friday at the National Energy Marketers Assn's (NEM) National Energy Restructuring Conference in the nation's capital. On the wholesale side, markets have been expanding in recent years with MISO running Entergy's transmission, the Southwest Power Pool taking on the Integrated System and Cal-ISO's Energy Imbalance Market (EIM).

"That changing resource mix, among the other things that it's doing, I think is directly contributing to the growth of the wholesale markets," LaFleur said. "Sometimes we think of this as kind of a stagnant situation and we have a hybrid country where some places have markets and others don't."

So far that wholesale expansion has not translated into the retail competition that NEM and its members advocate for, but that could start to change in Nevada. NV Energy is in the EIM already and now US Senate Minority Leader Harry Reid, D, is backing two major ballot initiatives to open up the market there, said his Senior Policy Advisor Alex McDonough.

One would reverse a PUC decision that cut the size of net-energy metering payments, while the other would let customers shop for power. An effort backed by Casinos to open up the retail market failed at the PUC there but now the ballot effort is trying to open the market again.

The changes in the industry are making their impacts felt in the power markets, LaFleur said. Historically, energy was the main source of revenue for power plants but with the need to build new units, capacity is growing in importance and going forward, another market is going to be quite important.

"I think in the future, a lot of the [natural] gas plants which

I believe we will still need, will be ramping up and down much more than they do now as they balance with renewable resources that cannot be turned off and on," LaFleur said. That means gas plants will have to be paid differently than the volumetric MWH prices that they get now, she added.

It is early in that process now but the "technological drumbeat" of that future is audible.

Earlier in her career, people thought of power as an all-in service, LaFleur said. Real sophisticates might have thought of demand charges, capacity and energy. "At least in my world, I never heard of ancillary services," she added.

"It was all bundled and paid for and done by the incumbent. Now we've stretched the electricity product horizontally to a whole set of products that are being priced separately."

Ramping, "blackstart," DR, reactive power, reliable fuel supplies and other ideas are coming to the fore and FERC has to work out to how to use market forces to pay them a proper price, rather than just doing it under cost-of-service regulation like the old days, LaFleur said.

FERC splits jurisdiction of power with the states and policymakers at that level are dealing with the same issues and that is leading to some tensions.

"One of our main responsibilities, as long as the markets are being relied on for resource selection and for reliability for customers, is to make sure that those markets send the correct price signal," LaFleur said – that they "are actually sending an economic signal of what it's going to cost to keep the lights on for customers now and in the future."

Meanwhile the markets have to evolve to deal with the issue of climate change, but LaFleur said she believes that is a job they can handle. The easiest path would just be to put a price on carbon and let them work but it can be done with other state policies, too.